

Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-01 SS-15 STR-01 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-05 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01

ABF-01 DODE-00 PM-03 H-01 L-02 PA-01 PRS-01 USIA-06

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TO SECSTATE WASHDC 0004

INFO AMEMBASSY BONN

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AMCONSUL ZURICH

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E.O. 11652: N/A

TAGS: EFIN, SZ

SUBJECT: SWISS FOREIGN EXCHANGE MARKET

REF: A) BERN 4676; B) BERN 4568

1. SUMMARY. CONTINUING STRENGTH OF SWISS FRANC AGAINST DOLLAR AND OTHER EUROPEAN CURRENCIES HAS SPARKED CONCERN RE COMPETITIVE POSITION SWISS EXPORT AND TOURIST INDUSTRIES AND PRESSURE FOR FURTHER MEASURES TO STEM UPWARD PRESSURE ON EXCHANGE RATE. WHILE SF/DOLLAR RATE APPROACHING 2.50 HAS BEEN WIDELY NOTED, OF EVEN GREATER CONCERN IS CURRENT DM/SF CROSS RATE AT AROUND 1.05. END SUMMARY.

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2. NEGATIVE INTEREST CHARGE OF 3 PERCENT PER QUARTER

(BERN 4373 AND 4379) MAY HAVE SLOWED CAPITAL INFLOW BUT GENERALLY CONSIDERED INADEQUATE BECAUSE: A) EURO-SWISS FRANC INTEREST RATES HIGH, PARTICULARLY FOR ONE-MONTH YEAR-END DEPOSITS, AND THESE NOT AFFECTED BY PENALTY FEE; B) NEGATIVE CHARGE APPLIED ONLY TO INCREASES OF GREATER THAN SF 100,000 COMPARED WITH OCTOBER 31 BASE IN EACH NON-RESIDENT SF ACCOUNT THUS ALLOWING SOME CIRCUMVENTION; AND C) 3 PERCENT PER QUARTER CHARGE NOT CONSIDERED EXCESSIVE BY SOME DEPOSITORS IN LIGHT OF SUBSTANTIAL RECENT CURRENCY APPRECIATION AND IN COMPARISON WITH ALTERNATIVES FOR PLACING FUNDS. INCREASED RESERVE REQUIREMENTS ON NON-RESIDENT SF DEPOSITS AND CONTROLS ON FORWARD FOREIGN EXCHANGE TRANSACTIONS (BERN A-342) HAVE HELPED BUT ALSO NOT REGARDED AS SUFFICIENT.

3. AMONG REASONS CITED FOR CURRENT SF APPRECIATION ARE: A) CONTINUING DESIRE OF THOSE HOLDING PETRODOLLARS DIVERSITY THEIR ASSETS; B) TEMPORARY END-OF-YEAR WINDOW DRESSING REQUIREMENTS OF BANKS AND COMPANIES; C) DEMAND FOR DM IN CONNECTION KUWAIT PARTICIPATION DAIMLER-BENZ AND CONCOMITANT DEMAND FOR CLOSELY-RELATED SF; AND D) EMOTIONAL/PSYCHOLOGICAL/HISTORICAL FACTORS SUGGESTING THAT SWITZERLAND OFFERS POLITICAL/ECONOMIC SECURITY NOT FOUND WIDELY ELSEWHERE. MOST OBSERVERS NOTE THINNESS OF MARKET AND EFFECT OF RELATIVELY SMALL FUND MOVEMENTS.

4. AT LUNCH DECEMBER 18 WITH CONSUL GENERAL ZURICH AND E/C COUNSELOR, SENIOR UNION BANK OFFICIALS SUGGESTED THAT SIZEABLE FEDERAL RESERVE/NEW YORK INTERVENTION EARLY IN 1974 INVOLVING PURCHASES OF SF AND OTHER EUROPEAN CURRENCIES STILL HAVING IMPACT ON FX MARKET. UBS SOURCES ALSO NOTED THAT SOME INTERNATIONAL COMPANIES MAKING SPECIAL EFFORT PRIOR YEAR-END REPAY IN ADVANCE THEIR SF OBLIGATIONS SINCE 1974 HAD GENERALLY BEEN PROFITABLE YEAR AND THUS FOR ACCOUNTING AND/OR TAX REASONS WOULD PREFER SHOW EXCHANGE LOSS THIS YEAR RATHER THAN NEXT WHEN CONDITIONS LIKELY BE MORE UNCERTAIN.

5. SWISS CAPITAL GOODS EXPORTS HAVE GENERALLY HELD UP WELL OVER PAST SEVERAL YEARS BUT RECENTLY ORDERS HAVE LEVELLED OFF AND SOME CANCELLATIONS MADE IN PART AS RESULT SF APPRECI-
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ATION AND WEAKENING ECONOMIC CONDITIONS EVERYWHERE.

6. AS NOTED ABOVE, SWISS BANKERS TO SOME EXTENT REGARD PRESENT EXCHANGE RATE SITUATION AS TEMPORARY END-OF-YEAR PHENOMENON LIKELY BE PARTIALLY REVERSED IN JANUARY. SWISS NATIONAL BANK (SNB) HAD OFFERED BANKS WHAT THEY REGARD AS INADEQUATE END-OF-YEAR SWAP ASSISTANCE AND HAS GENERALLY EXPRESSED PREFERENCE NOT INTERVENE ALONE IN EXCHANGE MARKET

IN ORDER PREVENT EROSION OF DOMESTIC TIGHT MONETARY POLICY.
NEW SWAPS AND APPARENT SNB INTERVENTION DECEMBER 18 MAY IMPLY
MODIFICATION THIS TACK.

7. SWISS FEDERAL COUNCIL (CABINET) WILL HOLD SPECIAL MEETING
DECEMBER 20 AND 21 WHICH SPOKESMAN ANNOUNCED DECEMBER 18 WAS
FOR PURPOSE OF A) REVIEWING GOS BUDGET AND GENERAL SWISS
ECONOMIC SITUATION FOLLOWING DEFEAT DECEMBER 8 IN REFERENDUM
OF TAX INCREASES, AND B) CONSIDERING CURRENCY SITUATION.
PRESSURE IS GREAT TAKE FURTHER STEPS PUSH SF/\$ RATE BACK
INTO MINIMUM ACCEPTABLE RANGE OF ABOUT 2.80 AND DM/SF RATE
ABOVE 1.10. BIG BANKS ANTICIPATE THAT FOREIGN ACCESS TO
SWISS CAPITAL MARKET THROUGH BOND ISSUES, PRIVATE NOTE
PLACEMENTS, BANK LENDING, ETC., WILL BE LIMITED IN 1975.
GOS AND SNB WOULD GENERALLY PREFER AVOID CONTROLS BUT SOME
ADDITIONAL ACTIONS SEEM LIKELY. BANKS HAVE ALREADY SCHEDULED
EXTENSIVE HOLIDAYS, IN ADDITION CHRISTMAS AND NEW YEARS,
OVER NEXT TWO WEEKS WHICH MAY EITHER RELIEVE TEMPORARY
PRESSURE ON SF OR ALLOW RELATIVELY QUIET PERIOD FOR INTRO-
DUCTION NEW MEASURES.
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